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October 9, 2008

Kathleen Aaron, Executive Director
Inland Library System
3581 Mission Inn Avenue
Riverside, California 92501

SUBJECT: AUDIT OF INLAND LIBRARY SYSTEM CASH CONTROLS

Introductory Remarks

In compliance with Article V, Section 7g of the Inland Library System's bylaws, the office of the San Bernardino County Auditor Controller shall act as a contracting fiscal agent for the System in accordance with provisions of the Government Code, Section 6505.5. Utilizing the County Board of Supervisor's Policy Statement on Internal Operational Auditing and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the Inland Library System (ILS). Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for county agencies to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, agencies use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Agencies designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, an agency's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for agencies with cash funds. Prudent cash management practice suggests that cash on hand and/or petty cash fund should not exceed the current need of the department. However, each agency head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Objectives, Scope and Methodology

The audit's objective was to assist management with the assessment of the adequacy of internal controls related to the overall petty cash process. Specific audit objectives were to determine whether:

1. ILS cash handling controls have been established and communicated to all personnel.
2. ILS practiced adequate cash handling controls to effectively safeguard cash.

We have completed an unannounced audit of the \$16,700 Petty Cash Fund Account at the Inland Library System for the period of January 1, 2008 through March 31, 2008. Our audit included surprise cash counts, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

Conclusion

Based on the results of our audit, we conclude that internal controls over petty cash are adequate to provide management with reasonable assurance that the fund is properly safeguarded, disbursed in compliance with ICCM, except for the findings presented in the body of the report.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to ILS on 09/23/08 and discussed our observations with management on 10/08/08. The department's responses to our recommendations are included in this report.

Findings and Recommendations

Finding 1: Disbursements issued by the fund custodian without independent review

Departments maintaining bank accounts for special purposes are to keep and maintain a complete record of disbursements from the accounts. An authorized employee should approve petty cash vouchers. This authorizing employee must be of a higher-ranking job code than the requestor.

We identified one, of twenty-four sampled, transaction for \$50.93 that did not have an original receipt or copy to document and validate the business purpose. In two, of twenty-four sampled, transactions, the person requesting the advance or reimbursement was the same person who approved the disbursement; one request was for \$588.80 and the other was for \$141.00.

Disbursements are done by the fund custodian without independent review. Independent review only occurs when reimbursement checks are made payable to the fund custodian. Fund custodian does not follow County policy for disbursements and reimbursement of petty cash funds.

Without adequate internal controls over special purpose accounts, ILS paid \$780.73 that may have been unauthorized. There's an increased risk that inappropriate transactions could occur and go undetected. That increased risk arises because ILS does not comply with County policy regarding cash handling procedures.

Recommendation:

We recommend ILS obtain training and follow County policy for cash handling.

Management's Response:

We did not receive a response to this finding from the Inland Library System's management.

Finding 2: Petty Cash Fund commingled without proper approval

At all times, the fund custodian must be able to account for the fund in the form of cash, vouchers, and receipts. Never commingle the petty cash fund with cash receipts or any other cash fund.

Petty cash fund of \$16,700 was commingled with other agency funds in a bank account. Without adequate internal controls for safeguarding cash, the Agency cannot be assured that cash is safeguarded against loss from theft or misappropriation.

Recommendation:

We recommend that Petty Cash Fund balance be maintained in accordance with ICCM. Also, we recommend ILS discontinue this petty cash fund and establish a special purpose checking account as described in the ICCM p 4-9.

Management's Response:

We did not receive a response to this finding from the Inland Library System's management.

Finding 3: Lack of Timely Reconciliation

A critical step in properly maintaining a cash fund is periodic reconciliation. Agencies must reconcile their cash funds at least once a month. Agencies must also research and resolve any differences.

Petty cash bank account balance exceeded the authorize petty cash fund. When performing monthly bank reconciliations, ILS did not research and resolve differences from the authorized petty cash fund amount. Without adequate internal controls for cash handling, the Department cannot be assured that errors and irregularities will be detected and resolved in a timely matter.

Recommendation:

We recommend that ILS monitor the petty cash fund balance by performing monthly reconciliation of the cash fund in the bank to the authorized petty cash fund amount.

Management's Response:

We did not receive a response to this finding from the Inland Library System's management.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard Ochi, CPA
Chief Deputy Auditor
Internal Audits Section

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